FISCAL POLICIES MANUAL 1

FUNDS: INTER-FUND BORROWING 1

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PREFACE

There are instances when a fund is nearing a zero cash balance but has receivables and expenses to be paid. The purpose of this policy is to improve the accountability of cash being borrowed between funds. It is intended to give guidelines for meeting short-term (less than one year) cash flow needs.

POLICY

In order to properly account for cash advances received from or cash advances made to another fund, the following criteria must be met:

1. The receiving fund should be at or nearing a zero cash balance.

2. The advance is to cover only short-term (less than one year) cash flow need.

3. The advance cannot take place if there is no receivable identified that will repay it.

4. If either fund retains interest earned, the receiving fund must pay interest to the advancing fund until repayment is made.

5. If neither fund retains interest, no interest payment is required.

6. The interest rate is based on the State Treasurer's idle fund earning rate during the time of the advance.

7. If the advance will cross fiscal years, the purpose, amount, and collateral used must be identified and documented in agency records.

8. The State General Fund cannot be used for inter-fund borrowing.

9. Cash positions presented in the agency's annual budget must be net of any advance loaned or received.

Agencies will not be allowed to use cash advances to manipulate funds. There must be a documented, true short-term (less than one year) cash flow need with an identified receivable used as collateral.

FISCAL IMPACT

Both the advancing and receiving funds are impacted in the amount of the advance plus interest.

ADMINISTRATIVE PROCEDURES

To record an advance to another fund, enter STARS transaction code 540, using all required data elements for this TC. To record an advance from another fund, enter STARS transaction code 541, using all required data elements for this TC. Both transactions are required to complete the entries on the General Ledger.

At the time the advance is no longer required, enter the same transaction codes used to establish the advance but, include the reverse indicator "R".

If interest is required to be exchanged, an expense will be charged to the receiving fund and revenue will be recorded for the advancing fund. To reduce the issuing of warrants, transaction code 24A may be used to record the expense, and transaction code 101 (or other appropriate revenue TC) may be used to record the revenue with both transactions processing at the same time.

Refer to the following example:

Step 1 (advance)
Record the advance to:

TC	Fund	Subsidiary	Amount
540	0349	1230348	10,000

Record the advance from:

TC	Fund	Subsidiary	Amount
541	0348	1230349	10,000

Step 2 (payback)
Record payback of the advance to:

TC	Fund	Subsidiary	Amount
540 R	0349	1230348	10,000

Record payback of the advance from:

TC	Fund	Subsidiary	Amount
541 R	0348	1230349	10,000

Step 3 (interest exchange if applicable)
Record interest expense

TC	Fund	Subobject	Amount
24A	0348	5962	50

TC	Fund	Subobject	Amount
17A	0349	2515	50